

# ANNUAL REPORT

**SILKNIT LIMITED**

AND SUBSIDIARY COMPANIES

*for the fiscal year ended*  
**DECEMBER 31, 1968**



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# SILKNIT LIMITED

TORONTO 2B, CANADA

April 8th, 1969.

*To the Shareholders of*

SILKNIT LIMITED:

The Board of Directors of your Company submits herewith the consolidated financial statements of Silknit Limited and its subsidiary companies for the year ended December 31, 1968 together with the report of the auditors thereon.

The combined earnings of the companies, before provision for income taxes and excluding a dividend received from an associated company, amounted to \$1,133,116 in 1968, an increase of \$603,125 over the amount of \$529,991 earned in the previous year. The Company in 1968 has adopted the principle of making provision in its accounts for deferred income taxes resulting from the differences between the amounts of capital cost allowances claimed for income tax purposes and the depreciation recorded in the accounts of the Company and, where applicable, the 1967 figures shown in the attached statements for purposes of comparison have been restated to reflect this change in accounting principle. After provision on this basis for income taxes of \$598,000 in 1968 and \$275,600 in 1967 and after receipt of a dividend of \$25,000 in each of the years from an associated company (50% owned), net earnings amounted to \$560,116 in 1968 as compared to \$279,391 in 1967.

The substantial rise in net earnings for 1968 reflects the increase in the level of demand for the Company's products which level was sustained throughout the year, and the efficiencies in production obtained as a result of the increased volume; it also reflects the turnaround of the Montreal lingerie subsidiary from a losing to a profitable operation. This level of earnings has been maintained so far in 1969 and although it is difficult at this early time to forecast what the remainder of the year will bring, we are hopeful that results of operations will continue to be satisfactory.

Dividends aggregating 60 cents per share were paid on the no par value Common Shares of the Company, and regular quarterly dividends at the rate of 5% per annum were paid on the \$40 par value First Preferred Shares. During 1968, 4,505 of the First Preferred Shares were purchased for cancellation at a cost of \$181,340.

Net current assets, or working capital, increased by \$276,045 during the year to an amount of \$3,908,993 at December 31, 1968.

It is with deep regret that we have to record the decease, late in 1968, of Mr. J. A. Pinatel who had served faithfully as a Director of the Company since being elected in 1948. Mr. W. Crompton, the Treasurer of the Company, was appointed to the Board of Directors on March 26, 1969.

Your Directors wish to record their appreciation of the loyal services rendered throughout the year by the officers and employees of the Company.

ON BEHALF OF THE BOARD,

H. B. EPSTEIN,

*President.*



PRICE WATERHOUSE & CO.

P.O. BOX 51  
TORONTO-DOMINION CENTRE  
TORONTO 1

MARCH 21, 1969

## AUDITORS' REPORT

*To the Shareholders of*

SILKNIT LIMITED :

We have examined the consolidated balance sheet of Silknit Limited and its subsidiaries as at December 31, 1968 and the consolidated statements of earnings, earned surplus, contributed surplus and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1968 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year, after giving effect in that year to the change, which we approve, in accounting for income taxes as described in Note 2 to the consolidated financial statements.

PRICE WATERHOUSE & CO.  
*Chartered Accountants.*

# SILKNIT LIMITED

## AND SUBSIDIARY COMPANIES

### CONSOLIDATED STATEMENT OF EARNINGS

|                                                                                                                | Year ended December 31 |                   |
|----------------------------------------------------------------------------------------------------------------|------------------------|-------------------|
|                                                                                                                | <u>1968</u>            | <u>1967</u>       |
| Net sales.....                                                                                                 | \$10,933,332           | \$10,052,339      |
| <i>Deduct:</i>                                                                                                 |                        |                   |
| Cost of merchandise sold and all expenses, except the items shown below.....                                   | 9,429,874              | 9,138,174         |
| Provision for depreciation.....                                                                                | 216,816                | 214,720           |
| Interest on mortgage bonds.....                                                                                | —                      | 1,905             |
| Remuneration of directors and senior officers (including \$83,948 paid to directors,<br>\$75,766 in 1967)..... | 153,526                | 167,549           |
|                                                                                                                | <u>9,800,216</u>       | <u>9,522,348</u>  |
| Earnings before income taxes and dividend from associated company.....                                         | 1,133,116              | 529,991           |
| Income taxes (Note 2):                                                                                         |                        |                   |
| Current.....                                                                                                   | 563,700                | 97,000            |
| Deferred.....                                                                                                  | 34,300                 | 178,600           |
|                                                                                                                | <u>598,000</u>         | <u>275,600</u>    |
|                                                                                                                | 535,116                | 254,391           |
| Dividend received from associated company.....                                                                 | 25,000                 | 25,000            |
| Net earnings for the year.....                                                                                 | <u>\$ 560,116</u>      | <u>\$ 279,391</u> |

# SILKNIT

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CONSOLIDATED

## ASSETS

|                                                                     | December 31 |             |
|---------------------------------------------------------------------|-------------|-------------|
|                                                                     | 1968        | 1967        |
| <u>CURRENT ASSETS:</u>                                              |             |             |
| Accounts receivable, less allowance for doubtful accounts.....      | \$1,947,068 | \$1,870,619 |
| Inventories, at the lower of cost and net realizable value:         |             |             |
| Raw materials and supplies.....                                     | 1,512,212   | 1,445,813   |
| Work in process.....                                                | 858,079     | 565,315     |
| Finished goods.....                                                 | 1,064,405   | 936,505     |
|                                                                     | <hr/>       | <hr/>       |
| Prepaid expenses.....                                               | 3,434,696   | 2,947,633   |
|                                                                     | 21,719      | 20,819      |
|                                                                     | <hr/>       | <hr/>       |
| Total current assets.....                                           | 5,403,483   | 4,839,071   |
| <br><u>OTHER ASSETS:</u>                                            |             |             |
| Investment in shares of associated companies, at cost (Note 1)..... | 13,586      | 23,586      |
| Cash surrender value of life insurance.....                         | 140,165     | 133,671     |
| Sundry.....                                                         | 75,791      | 43,871      |
|                                                                     | <hr/>       | <hr/>       |
|                                                                     | 229,542     | 201,128     |
| <br><u>FIXED ASSETS, at cost:</u>                                   |             |             |
| Land.....                                                           | 90,877      | 91,228      |
| Buildings.....                                                      | 1,004,309   | 1,012,998   |
| Machinery and equipment.....                                        | 3,328,766   | 3,166,108   |
|                                                                     | <hr/>       | <hr/>       |
|                                                                     | 4,423,952   | 4,270,334   |
| Less—Accumulated depreciation.....                                  | 3,076,339   | 2,897,494   |
|                                                                     | <hr/>       | <hr/>       |
|                                                                     | 1,347,613   | 1,372,840   |
| <br>ON BEHALF OF THE BOARD:                                         |             |             |
| M. H. EPSTEIN, <i>Director.</i>                                     |             |             |
| H. B. EPSTEIN, <i>Director.</i>                                     |             |             |
|                                                                     | <hr/>       | <hr/>       |
|                                                                     | \$6,980,638 | \$6,413,039 |
|                                                                     | <hr/>       | <hr/>       |



# LIMITED

Y COMPANIES

## ALANCE SHEET

### LIABILITIES

|                                                                                                                                        | December 31        |                    |
|----------------------------------------------------------------------------------------------------------------------------------------|--------------------|--------------------|
|                                                                                                                                        | 1968               | 1967               |
| <u>CURRENT LIABILITIES:</u>                                                                                                            |                    |                    |
| Bank advances (secured).....                                                                                                           | \$ 198,022         | \$ 309,904         |
| Accounts payable and accruals.....                                                                                                     | 743,623            | 699,122            |
| Payable to associated company.....                                                                                                     | 66,206             | 138,820            |
| Income taxes payable.....                                                                                                              | 486,639            | 58,277             |
| Total current liabilities.....                                                                                                         | 1,494,490          | 1,206,123          |
| <br><u>DEFERRED INCOME TAXES</u> (Note 2).....                                                                                         | <br>110,000        | <br>75,700         |
| <br><u>SHAREHOLDERS' EQUITY</u> (Note 3):                                                                                              |                    |                    |
| Five per cent cumulative redeemable first preferred shares of the par value of \$40 each:                                              |                    |                    |
| Authorized—15,370 shares                                                                                                               |                    |                    |
| Issued—5,370 shares                                                                                                                    |                    |                    |
| Outstanding—1,587 shares (Note 4).....                                                                                                 | 63,480             | 243,680            |
| Five per cent non-cumulative redeemable second preferred shares of the par value of 25c. each:                                         |                    |                    |
| Authorized—4,000,000 shares                                                                                                            |                    |                    |
| Common shares without nominal or par value:                                                                                            |                    |                    |
| Authorized—600,000 shares                                                                                                              |                    |                    |
| Issued and outstanding—210,000 shares.....                                                                                             | 350,000            | 350,000            |
| Contributed surplus.....                                                                                                               | 481,682            | 482,822            |
| Earned surplus (of which \$151,320 is designated as capital surplus in compliance with Section 61 of the Canada Corporations Act)..... | 4,480,986          | 4,054,714          |
|                                                                                                                                        | 5,376,148          | 5,131,216          |
|                                                                                                                                        | <u>\$6,980,638</u> | <u>\$6,413,039</u> |

# SILKNIT LIMITED

## AND SUBSIDIARY COMPANIES

### CONSOLIDATED STATEMENT OF EARNED SURPLUS

|                                                         | Year ended December 31 |                    |
|---------------------------------------------------------|------------------------|--------------------|
|                                                         | <u>1968</u>            | <u>1967</u>        |
| Balance at beginning of year:                           |                        |                    |
| As previously reported.....                             | \$4,054,714            | \$3,800,127        |
| Adjustment of prior years' deferred taxes (Note 2)..... | —                      | 102,900            |
| As restated.....                                        | 4,054,714              | 3,903,027          |
| Net earnings for the year.....                          | 560,116                | 279,391            |
|                                                         | <u>4,614,830</u>       | <u>4,182,418</u>   |
| <i>Deduct:</i>                                          |                        |                    |
| Dividends—                                              |                        |                    |
| On preferred shares.....                                | 7,844                  | 12,204             |
| On common shares.....                                   | 126,000                | 115,500            |
|                                                         | <u>133,844</u>         | <u>127,704</u>     |
| Balance at end of year.....                             | <u>\$4,480,986</u>     | <u>\$4,054,714</u> |

### CONSOLIDATED STATEMENT OF CONTRIBUTED SURPLUS

|                                                                                 | Year ended December 31 |                   |
|---------------------------------------------------------------------------------|------------------------|-------------------|
|                                                                                 | <u>1968</u>            | <u>1967</u>       |
| Balance at beginning of year.....                                               | \$ 482,822             | \$ 482,792        |
| Gain (loss) on preferred shares purchased for cancellation during the year..... | (1,140)                | 30                |
| Balance at end of year.....                                                     | <u>\$ 481,682</u>      | <u>\$ 482,822</u> |



# SILKNIT LIMITED

## AND SUBSIDIARY COMPANIES

### CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

|                                                          | Year ended December 31  |                         |
|----------------------------------------------------------|-------------------------|-------------------------|
|                                                          | <u>1968</u>             | <u>1967</u>             |
| <u>SOURCE OF FUNDS:</u>                                  |                         |                         |
| Funds provided from operations—                          |                         |                         |
| Net earnings for the year.....                           | \$ 560,116              | \$ 279,391              |
| Provision for depreciation.....                          | 216,816                 | 214,720                 |
| Provision for deferred income taxes.....                 | 34,300                  | 178,60                  |
|                                                          | <hr/> 811,232           | <hr/> 672,711           |
| <u>APPLICATION OF FUNDS:</u>                             |                         |                         |
| Dividends—                                               |                         |                         |
| Common.....                                              | 126,000                 | 115,500                 |
| Preferred.....                                           | 7,844                   | 12,204                  |
| Cost of preferred shares purchased for cancellation..... | 181,340                 | 770                     |
| Additions to fixed assets (net).....                     | 191,589                 | 155,951                 |
| Other (net).....                                         | 28,414                  | 15,746                  |
|                                                          | <hr/> 535,187           | <hr/> 300,171           |
| Resulting in an increase in working capital of.....      | 276,045                 | 372,540                 |
| Working capital at beginning of year.....                | 3,632,948               | 3,260,408               |
| Working capital at end of year.....                      | <hr/> <hr/> \$3,908,993 | <hr/> <hr/> \$3,632,948 |

# SILKNIT LIMITED

## AND SUBSIDIARY COMPANIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 1968

#### 1. INVESTMENT IN SHARES OF ASSOCIATED COMPANIES:

The Company's share of net earnings of its associated companies (50% owned) for the year ended December 31, 1968 amounted to \$62,493 compared with \$123,873 for 1967. The 1967 amount included \$50,000 as the Company's share of an extraordinary income item and has been restated from that previously reported to provide for deferred income taxes. These earnings are reflected in the attached accounts only to the extent of dividends received. The book value of net assets attributable to the investment in shares of associated companies at December 31, 1968 amounted to \$734,766.

#### 2. DEFERRED INCOME TAXES:

During 1968 the Company adopted the principle of providing in its accounts for deferred income taxes, details of which had been given by note in prior years. The tax provision in the 1967 income statement has been adjusted to reflect this change. The current portion of the 1967 provision differs from that previously reported as a result of filing amended tax returns for a subsidiary company.

The adjustment to the 1967 opening balance of earned surplus of \$102,900 and the establishment of a deferred tax debit as at that date reflects the recognition of loss carry forwards and additional capital cost allowances available in a subsidiary company (now a profitable operation) which in total exceeded additional capital cost allowances claimed by the parent company in 1966 and prior years.

#### 3. SUPPLEMENTARY LETTERS PATENT:

By supplementary letters patent dated June 7, 1968:

- (a) the capital of the Company was reduced by the cancellation of the 9,630 five per cent cumulative redeemable preferred shares which had been redeemed and the restoration to earned surplus of \$385,200 being the amount designated as the capital surplus in compliance with Section 61 of the Canada Corporations Act resulting from the redemption of the said 9,630 preferred shares;
- (b) the remaining 15,370 authorized five per cent cumulative redeemable preferred shares were redesignated as 15,370 five per cent cumulative redeemable first preferred shares;
- (c) the capital of the Company was increased by the creation of 4,000,000 five per cent non-cumulative redeemable second preferred shares of the par value of 25c. each.

#### 4. PREFERRED SHARES REDEEMED:

During the year 722 five per cent cumulative redeemable preferred shares were purchased and redeemed by the Company prior to the issue of supplementary letters patent referred to above and 3,783 five per cent redeemable first preferred shares were purchased and redeemed since June 7, 1968.

## SILKNIT LIMITED

### OFFICERS AND DIRECTORS

|                          |                                           |
|--------------------------|-------------------------------------------|
| M. H. EPSTEIN.....       | <i>Chairman of the Board and Director</i> |
| H. B. EPSTEIN.....       | <i>President and Director</i>             |
| H. T. BURGESS.....       | <i>Secretary and Director</i>             |
| W. CROMPTON, C.A.....    | <i>Treasurer and Director</i>             |
| E. J. LERANBAUM.....     | <i>Director</i>                           |
| E. G. McMILLAN, Q.C..... | <i>Director</i>                           |
| M. ROGERS.....           | <i>Director</i>                           |
| C. W. DUMAS.....         | <i>Director</i>                           |
| MRS. ANNE EPSTEIN.....   | <i>Director</i>                           |



